



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

June 9, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

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Second District

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Third District

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Fifth District

**WORKERS' COMPENSATION MEDICAL AND DISABILITY MANAGEMENT AND COST
CONTAINMENT SERVICES CONTRACT SOLICITATION REVIEW (ITEM NO. 19,
AGENDA OF JUNE 10, 2003)**

Attached is a review conducted by the Department of Auditor-Controller (A-C) at the request of the Chief Administrative Office (CAO). The A-C reviewed the solicitation process related to this contract and made a recommendation to reconvene the contract's Scoring Committee and review its scoring. This process will extend beyond the current contract's July 6, 2003, expiration and, therefore, required the CAO placing Item No. 19 on the Board of Supervisors June 10, 2003, agenda.

Please call either me, or Rocky Armfield, County Risk Manager, at (213) 351-5346, if you have any questions.

DEJ:RA:aec

Attachment

c: Executive Officer, Board of Supervisors
County Counsel

agenda_No19_061003



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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June 6, 2003

TO: David E. Janssen
Chief Administrative Officer

FROM: J. Tyler McCauley *by RSM*
Auditor-Controller

SUBJECT: **CHIEF ADMINISTRATIVE OFFICE: WORKER'S COMPENSATION
MEDICAL AND DISABILITY MANAGEMENT AND COST
CONTAINMENT SERVICES CONTRACT SOLICITATION REVIEW**

At the request of the Chief Administrative Office (CAO or Department), we have reviewed the solicitation process related to the Worker's Compensation Medical and Disability Management and Cost Containment Services initiated by the CAO Risk Management Branch. Specifically, we reviewed: (1) the Request for Proposal (RFP) to determine if it provided an adequate explanation of the proposal evaluation process, including the evaluation criteria; (2) the proposal evaluation instruments to determine if they were consistent with the RFP requirements and provided an objective basis for evaluating team member scoring; and (3) the composition of the evaluation team and the processes it used in scoring the proposals to determine if they were fair, reasonable and consistent. We also reviewed the issues noted in two complaint letters from proposers received by the CAO or Board offices.

We interviewed staff from the CAO Risk Management Branch and reviewed documents related to the RFP process, including the completed evaluation rating instruments.

Review Summary

We noted a number of areas where the contracting process could have been conducted in a more accurate and documented manner. These areas include the proposal evaluation process and the evaluation scoring. We recommend the Department reconvene the evaluation committee and require committee members to score each evaluation criterion, attempt to resolve significant differences in their scoring and explain any unresolved differences. The Department should then recompute the scores to ensure they are mathematically correct. We also found the RFP did not provide a formal appeals process in which firms could challenge their bid evaluation score and/or the evaluation process. In conjunction with County Counsel, the Department should develop a formal appeals process and advise proposers of that process at the same time it advises proposers of the revised rankings.

Subsequent to notifying proposers of their rankings, the Department received complaints from two proposers, ComplQ and Diversified. Both firms stated that the Department had not, but should have, considered their firm's actual cost containment performance with other agencies. These proposers stated that if the County had done so, the County could realize additional savings of between \$20 and \$25 million annually over the County's current provider. The Department did not include a proposers' actual performance with other agencies as an evaluation criterion because the County has no assurance that the performance a proposer achieves elsewhere will approach actual in Los Angeles County based on the characteristics of the County's caseload and bills. In addition, the accuracy of the reported performance and consistency among entities in calculation methodology has not been established. We also noted the complainants did not disclose performance on all contracts. They might have others with poorer performance. Proposers should have been aware that their actual performance in other jurisdictions was not an evaluation criterion, as none was included in the RFP. Further, no proposer raised this issue at the mandatory bidder's conference.

In lieu of evaluating performance with other agencies, the Department required each proposer to review 100 workers compensation bills which the County received this fiscal year to identify related cost containment data. The top three ranked proposers scored within three points of each other on this exercise.

These and other findings noted during our review are discussed in detail below.

Background

In January 2003, the CAO issued a RFP seeking a firm to provide workers' compensation, medical and disability management, and cost containment services. The contract was to be effective July 7, 2003, for a three year term, with two one year extensions. The Department held a mandatory bidder's conference and distributed the questions and answers to all attendees.

The CAO received six written proposals that met the minimum criteria outlined in the RFP. An evaluation committee of seven (three staff from the Department's Risk Management Branch, one staff from the Fire Department, Department of Public Works, Department of Health Services and the Sheriff's Department) evaluated the written proposals. The Department selected the firm that received the highest ranking based on the written proposals reviewed by the evaluation committee.

Bid Evaluation Process

In evaluating bid proposals, County departments usually follow the following processes. The initial step involves organizing an evaluation committee comprised of individuals responsible for reviewing and scoring each proposal. To assist the evaluation committee in scoring the proposals, County departments develop an evaluation instrument that identifies key objective evaluation criteria and numerical weights to identify important factors. The evaluation instrument also allows adequate space for the

evaluators to write comments to document their individual proposal scoring. After each committee member has evaluated the proposals, the committee meets to discuss their individual scores and, wherever possible, resolve significant scoring differences.

The RFP identified minimum qualifications that the written proposals must meet before the proposals would be evaluated. The RFP also identified the criteria that would be used to evaluate the written proposals. These criteria, and their relative weights, are shown in Table 1.

Table 1
Evaluation Criteria

Criteria	Relative Weights	Total Points
Cost	30%	300
Approach to providing required services	20%	200
Qualifications	20%	200
Quality Control Plan	15%	150
Transition plan	10%	100
Acceptance of terms and conditions	5%	50
Total	100%	1,000

Evaluation Committee

The committee members were knowledgeable of the technical requirements of the RFP and were well qualified to participate on the committee. The Department stated that each committee member independently scored the written proposals. However, the Department's evaluation committee did not always follow standard County evaluation practices. Specifically:

- The Department did not require evaluators to sign, or initial, the evaluation instruments. As a result, we were unable to match the completed evaluation instruments to the list of evaluators to confirm each evaluator on the committee actually completed an evaluation instrument.
- Although the Department stated evaluation committee members came together as a group to discuss their individual scores and attempted to resolve significant differences in their scoring, the evaluation committee members did not resolve differences in scoring or explain their rationale for large scoring discrepancies.

As a result, some evaluation criterion had a wide range in the individual scores received from the committee members. For example, one evaluator rated a proposer ten points (out of a possible 120 points) for the criterion "Experience with similar clients", while a second evaluator rated the same proposer 91 points in this criterion. Neither evaluator included comments to support his or her score. In another example, one evaluator

rated a proposer 50 points (out of a possible 100 points) for the criterion "Transition plan", while a second evaluator rated the same proposer 95 points in this criterion. Again, neither evaluator included comments to support his or her score.

We also found several instances in which the evaluators did not complete the rating instruments for one or more criteria. For example, one evaluator did not complete the rating for the criterion "Quality control" (a possible 150 points).

Significant differences in evaluator scores could suggest that the evaluation committee members did not fully understand the scoring process, or the information contained in the proposal, or both. If evaluators had resolved scoring differences and completed ratings for all evaluation criteria, the final proposal scores would likely be different.

In order to improve the integrity of the proposal evaluation process, the Department should reconvene the evaluation committee and ensure members score each evaluation criterion, attempt to resolve any significant differences in their scoring and explain and fully document any unresolved differences. The Department should also require each evaluator to sign and date the evaluation instrument.

Recommendations

The Department:

1. Reconvene the evaluation committee and ensure members score each evaluation criterion, attempt to resolve any significant differences in their scoring and explain any unresolved differences.
2. Require each evaluator to sign and date the evaluation instrument.

Proposal Evaluation Instruments

The Department developed an evaluation instrument to evaluate the written proposals. The evaluations were based on a 1,000-point scale. The evaluation instrument used to evaluate the written proposals assigned specific and relevant criteria that agreed to the requirements of the RFP. Also, the instruments provided the evaluators with the weights of importance for each criterion, and the weights were logical. Finally, the instrument included adequate space for evaluators to comment on their scores.

Evaluation Scoring

We evaluated the processes used to rank the written proposals to ensure the processes were fair, reasonable, and consistent. We also reviewed the mathematical accuracy of the scores assigned to each of the written proposals.

The Department computed the average scores of the written proposals and ranked the proposals according to this average score. However, we noted errors in the

Department's mathematical calculations to determine each proposal's average score. We attribute this to the fact that the Department manually calculated the averages. In addition, Department staff alone calculated the score for the evaluation criterion cost, and we noted numerous and material mathematical errors in the calculation of cost.

We computed the correct scores and reviewed these scores with the Department. While the overall ranking of the three highest rated proposers is the same under the corrected scores, the margin between the top two ranked proposals diminishes to approximately 90 points (as opposed to a margin of approximately 130 points under the Department's scores.) This ranking may change after the evaluation committee reconvenes to score all evaluation criteria and attempt to resolve significant differences in their scores. After this process is completed, the Department should recompute the scores and the score for cost to ensure they are mathematically correct.

Recommendation

3. After the evaluation committee reconvenes to score all evaluation criteria and attempt to resolve significant differences in their scores, the Department should recompute the scores and the score for cost to ensure they are mathematically correct.

Appeals Process

We noted that the RFP did not provide a formal appeals process through which firms could challenge their bid evaluation score and/or the evaluation process. The Department stated that they did not include a formal appeals process because one is not included in ISD's Contracting Manual. However, this has not precluded some County departments from including in their RFPs procedures for proposers to follow when appealing their scores and/or the evaluation process. These procedures include specific deadlines for proposers to submit their appeals in writing and a review of the appeals by a committee comprised of individuals not otherwise involved in the proposal evaluation process. These departments notify proposers of the final evaluation results after the appeals process is completed. In conjunction with County Counsel, the CAO should develop a formal appeals process and advise proposers of that process at the same time it advises proposers of the revised rankings.

Recommendation

4. In conjunction with County Counsel, the CAO should develop a formal appeals process and advise proposers of that process at the same time it advises proposers of the revised rankings.

Proposer Complaints

Subsequent to notifying proposers of the highest ranked proposal, the Department received written complaints from two proposers who were not the highest ranked. Both proposers complained that the Department did not include a proposer's actual performance in other jurisdictions as an evaluation criterion, and one proposer complained that it had not been recommended for the contract even though its proposed cost was less than the actual cost of the current contractor in FY 2001-02.

Actual Performance in other Jurisdictions

ComplQ and Diversified, stated that the Department had not, but should have considered, their firm's actual performance with other agencies. These proposers stated that if the County had done so, the County could realize additional savings of between \$20 and \$25 million annually over the County's current provider.

The Department did not include a proposer's actual performance with other agencies as an evaluation criterion because actual performance is often not comparable due to many variables (e.g., medical bills subject to negotiated fee schedules or the number of litigated claimants.) The County has no assurance that the performance a proposer achieves elsewhere will approach actual in Los Angeles County based on the characteristics of the County's caseload and bills. In addition, the accuracy of the reported performance and consistency among entities in calculation methodology has not been established. We also noted the proposers did not disclose their performance on all contracts. They might have other contracts with poorer performance.

The Department developed detailed criteria that evaluated the proposer's work plan and capabilities to fulfill the RFP requirements. The detailed criteria appropriately evaluated a proposer's understanding of the RFP requirements, qualifications, reference checks, and cost containment approaches and techniques.

Proposers should have been aware that their actual performance with other agencies was not an evaluation criterion, as none was included in the RFP. Further, we listened to the tape of the mandatory bidder's conference and reviewed the written questions and answers distributed to all interested parties. We noted that at no time did any proposer request the Department to revise the evaluation criteria in the RFP to include a proposer's actual performance with other agencies.

100 Bills Test

The RFP included a mechanism through which the Department attempted to determine a proposer's actual aptitude at containing costs in Los Angeles County. Specifically, the Department submitted to each proposer 100 workers compensation medical bills which the County received this fiscal year, and requested each proposer to identify related cost containment data (e.g., reduction in gross billings and bills subject to certain reductions.) The Department evaluated this exercise under the evaluation criterion

"Approach to providing services" and weighted the results 36 points (or 3.6% of the total 1,000 points.) The top three ranked proposers scored within three points of each other on the results.

Flat Rate

ComplQ also complained that it had not been recommended for the contract even though its proposed flat rate of \$5.0 million is less than the actual payment of \$5.4 million the County made to the current provider in FY 2001-02. We noted the Department appropriately evaluated costs to provide the services in the upcoming contract term, and did not evaluate the variance of those costs from historic cost. Also, the Department required proposers to provide either a flat or a unit cost, and the Department considered the lower of the two. Finally, because cost is only one evaluation criterion weighted at 30%, a proposer could score the highest in this criterion while not being the highest ranked proposal.

Conclusion

We recommend the Department reconvene the evaluation committee and require evaluation committee members score each evaluation criterion, attempt to resolve any significant differences in their scoring and explain any unresolved differences. After the evaluation committee has done this, the Department should re-compute the average scores to ensure they are mathematically correct. In conjunction with County Counsel, the Department should also formalize an appeals process and advise proposers of that process at the same time it advises proposers of their revised results.

We would like to thank the Department's management and staff for their cooperation during our review.

If you have any questions, please contact me at (213) 974-8301, or your staff may contact DeWitt Roberts at (626) 293-1101.

JTM:DR:JK

c: Sharon Harper, Chief Deputy, Chief Administrative Office
Rocky Armstrong, Assistant Administrative Officer